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RUEATRS/DEPT OF TREASURY WASHDC 0425
RUCNCIS/CIS COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 1052
RUEHIT/AMCONSUL ISTANBUL 0470

UNCLAS YEREVAN 000768

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E.O. 12958: N/A
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SUBJECT: FITCH RATES ARMENIA "BB-" WITH A STABLE
OUTLOOK

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accordingly.

SUMMARY

¶1. (SBU) On June 5, 2006, Fitch Ratings assigned Armenia foreign and local Issuer Default Ratings (IDR) of "BB-" with a Stable Outlook. This is the first time Armenia has received a sovereign credit rating from an internationally-recognized rating company. Representatives from the Central Bank of Armenia (CBA) and the International Monetary Fund (IMF) are pleased with the rating which should significantly improve Armenia's ability to participate in the international financial arena and attract foreign investment. End Summary.

¶2. (SBU) Head of the Monetary Policy Department at the CBA Artur Stepanyan told us that the rating was "a relatively good estimate...which gives foreign businessmen an adequate picture of the country's investment climate." He noted that, according to the Fitch ratings, "Armenia is doing better than Georgia (which is not ranked), but worse than Russia and Azerbaijan." Managing Director of Fitch's Sovereigns Group David Riley also said "Armenia's credit ratings are supported by prudent macroeconomic policies and a declining public and external debt burden that compared favorably with rated peers."

¶3. (U) While Fitch recognized Armenia's impressive economic growth, the "BB-" rating falls in the "vulnerable" category. Fitch identified certain weaknesses in the economy which Armenia should strive to improve. Fitch particularly focused on Armenia's low per capita income (USD 1,500 in 2005 in Armenia, compared to USD 2,500 for "BB" rated countries), extensive dollarization, shallow capital markets, low domestic savings and low tax collection rates. While Fitch judged the likelihood of resumption of violent conflict with Azerbaijan to be low, the absence of a permanent solution to the Nagorno-Karabakh conflict and the lack of normal relations with Turkey were both identified as part of Armenia's challenging political situation.

COMMENT: RATING A GOOD DEAL

¶4. (SBU) Having a Fitch rating, even in the "vulnerable" category, is good news for Armenia and is likely to strengthen its ability to attract foreign capital. We agree with Fitch's positive assessment of Armenia's macroeconomic situation and understand that other international ratings companies including Standard and Poor's and Moody's are considering issuing ratings for Armenia in the near future.
EVANS